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Analysts View Japan's Latest GNP Figures With Caution

The Economic Planning Agency could have had in mind the saying that figures lie and liars figure June 16 when it presented the latest quarterly figures regarding the growth of the Japanese economy. Apparently seeking to avoid a charge of being less than honest, EPA officials sought to explain why the just-released January-March gross national product data were misleading. On paper the reported annualized growth rate of an inflation-adjusted 4.3 percent looked surprisingly good, considering the widely held perception that the Japanese economy was in the midst of a recession (see Table). EPA officials encouraged adjustments, however, that implied that a realistic figure would be far lower.

The effect of EPA's uncharacteristic pessimism was evident in some rethinking apparent on the part of several Japanese analysts. Prior to the data's release these Japanese experts had predicted that Japan's economy would grow a real 4 percent on an annual basis during the January-March quarter. On this premise they took issue with foreign analysts who generally argued that their own estimates, which pointed to the Japanese economy actually shrinking for a second straight quarter, indicated a particularly severe recession — at least by Japanese standards. One might have thought that the Japanese analysts would have used EPA's actual data as confirmation for the correctness of their analysis. The opposite happened. In some instances, at least, the same analysts who had been bullish on the Japanese economy only days before became much more pessimistic. In doing so, they appeared to take a cue from EPA.

Japan's Real Gross National Product at Constant (1985) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1990	FY 1991	April-June 1991	July-September 1991	October-December 1991	January-March 1992
Gross Domestic Product	¥406,615.1	¥420,648.2	¥418,446.7	¥420,211.8	¥420,104.1	¥423,649.6
	(5.7%)	(3.5%)	(4.0%)	(1.7%)	(-0.1%)	(3.4%)
Gross National Product	409,214.5	423,565.4	421,003.9	423,052.8	422,715.7	427,193.3
	(5.5%)	(3.5%)	(2.8%)	(2.0%)	(-0.3%)	(4.3%)
Personal Consumption Spending	234,085.0	240,619.7	238,652.2	240,449.8	240,692.7	242,690.2
	(4.0%)	(2.8%)	(6.5%)	(3.0%)	(0.4%)	(3.4%)
Private Residential Construction	22,848.6	20,261.2	21,110.7	20,620.8	19,621.3	19,603.6
	(4.9%)	(-11.3%)	(-23.6%)	(-9.0%)	(-18.0%)	(-0.4%)
Private Fixed Nonresidential Investment	88,990.7	91,683.0	91,559.7	92,225.3	91,491.3	91,440.7
	(12.1%)	(3.0%)	(-3.0%)	(2.9%)	(-3.1%)	(-0.2%)
Change in Business Inventories	2,901.4	3,214.6	3,172.3	3,420.9	3,075.5	3,218.1
	(-20.8%)	(10.8%)	(13.7%)	(35.2%)	(-34.7%)	(19.9%)
Government Current Expenditures	34,428.7	35,428.7	35,595.7	35,114.8	35,297.1	35,691.5
	(2.4%)	(2.9%)	(6.5%)	(-5.3%)	(2.1%)	(4.5%)
Government Fixed Investment	26,095.1	27,579.7	27,378.4	27,392.6	27,655.8	27,826.1
	(4.4%)	(5.7%)	(20.3%)	(0.2%)	(3.9%)	(2.5%)
Change in Government Inventories	95.1	-197.4	-199.8	240.8	-942.6	91.8
	(*)	(*)	(*)	(*)	(*)	(*)
Net External Sector	-230.1	4,975.9	3,734.7	3,587.8	5,824.6	6,631.3
	(*)	(*)	(*)	(*)	(*)	(*)
Exports of Goods and Services and Factor Income Received	73,760.4	77,175.7	74,796.4	76,671.6	77,949.8	79,214.6
	(7.7%)	(4.6%)	(-8.7%)	(10.4%)	(6.8%)	(6.7%)
Imports of Goods and Services and Factor Income Paid	73,990.6	72,199.8	71,061.7	73,083.8	72,125.2	72,583.3
	(7.2%)	(-2.4%)	(-7.9%)	(11.9%)	(-5.1%)	(2.6%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

EPA and other analysts noted that the biggest problem in the data was the so-called leap-year effect. An extra day in February inflated the reported value of consumer spending, thereby enlarging the calculated increase in annualized GNP growth by 1.6 percentage points. In addition, as in previous years, Japanese companies chose to repatriate their overseas profits in the January-March period, the final quarter of the Japanese fiscal year. Inasmuch as such profits are treated in the GNP statistics as exports, net exports displayed an exaggerated rate of growth from the previous quarter. Gross domestic product, which differs from GNP primarily in that it excludes net foreign profits, grew a much more modest 3.4 percent on an annualized basis in 1992's opening quarter. Finally, another qualification in the data centered on government inventories. In the previous quarter they had fallen due do a poor rice harvest, with the result that even a modest inventory buildup made an unusually large and unsustainable contribution to overall growth. Without the triple effects of a leap year, repatriated income and government inventories, real GNP growth would have been about 1 percent on an annualized basis or less than one-fourth the reported figure.

The almost overnight change in the interpretation of the GNP figures may have been a factor behind the sharp decline in the Japanese stock market the week after the statistics were released, although the market had been weak for several weeks. On June 22 the Nikkei average of 225 stocks closed below 16,000 for the first time since October 1986, dropping to 15,921.22.

The GNP data contain little evidence of a quick, sharp economic recovery. Excess business inventories, widely eyed as the culprit behind production cutbacks since early last year, showed few signs of shrinking in the January-March period; in fact, stocks expanded 19.9 percent on an annualized basis. Housing construction, which played a strong role in pulling the economy out of other recent recessions, continued to decline in the first quarter, although less comprehensive data for more recent months are encouraging. Private plant and equipment spending, another key factor behind Japanese economic growth in recent years, dropped again, albeit remaining at historically high levels.

Of interest to Washington were not only the net export figure, which, as mentioned, was biased upward, but the government spending numbers. Net exports would not have expanded at all without the extraordinary influence of foreign investment income. (Trade data that show a large increase in Japanese net exports in the first quarter are on a nominal, year-to-year dollar basis rather than the real, seasonally adjusted quarter-to quarter yen basis used in the GNP statistics.) Hence, a possible development much feared in Washington — a Japanese export drive to pull the economy out of the doldrums — was not evident in the first quarter GNP statistics. The two government spending categories, by contrast, arguably were the only source of significant growth during the quarter. Their relative robustness could be even more evident in the GNP figures for the April-June period, given the acceleration of FY 1992 public works spending, although that program will take months to be felt fully. The Bush administration has pushed Tokyo to adopt a more expansionary fiscal stance.

Over the longer term government spending and taxation may play an even larger role in the Japanese economy. An increasing number of analysts expect Tokyo to announce an additional economic stimulus package (see following article), perhaps as early as this summer. Some experts believe that Tokyo's expectation of 3.5 percent real economic growth in FY 1992, which began April 1, otherwise could be far too optimistic. (By comparison, the government initially had expected inflation-adjusted GNP to expand 3.8 percent in FY 1991; actual growth came to 3.5 percent.) Business leaders, whose confidence is at the lowest level since the bottom of the previous recession, have added their voices to calls for a more activist fiscal stance.

Douglas Ostrom

Economic Woes Pressure Fiscal Policy

Japanese officials continue to battle against economic pessimism and appear ready to resort to fiscal weapons to break the negative mind-set sapping economic activity. Despite having accelerated the pace of already planned FY 1992 public works spending, Prime Minister Kiichi Miyazawa